



Monthly ECONOMIC REVIEW

AUGUST 2022

CENTRAL BANK OF LESOTHO
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I. ECONOMIC ACTIVITY

Economic activity continued on a downward trend in August 2022. This was largely on account of a poor performance in the production activity, which undermined positive developments in the domestic demand.

Overall Performance Index

The Composite Indicator of Economic Activity (CIEA) reflected a third consecutive contraction during the period under review. The index declined by a slower 0.9 per cent following 2.6 per cent contraction recorded in the preceding month. The lacklustre performance emanated from the manufacturing side as the clothing and textiles industry continued to be under duress. However, domestic demand recouped during the review month. This was further boosted by the construction and transport subsectors which also registered growth.

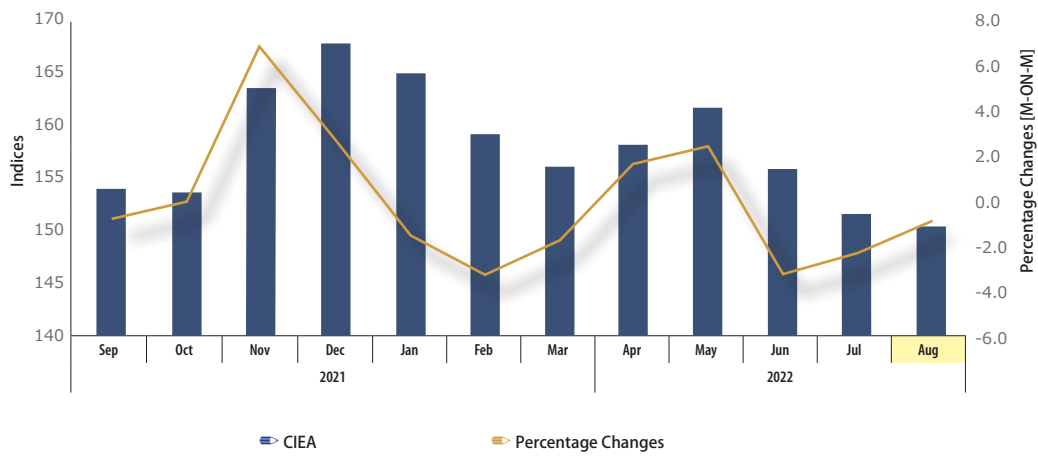
Domestic Demand Category

Domestic demand improved after two months of negative growth recording 2.0 per cent increase, contrary to the 6.0 per cent decline in the previous month. Growth was supported mainly by improved government activity in addition, improved demand for imports and collection of sales taxes. There was a decline, however, in real earnings.

Manufacturing and Production Category

Manufacturing activity continued on the downturn, falling by 3.1 per cent, as compared to the 5.8 per cent in the preceding period. The lacklustre performance emanated mainly from the clothing and textiles exports, as also evidence in the decline in the industrial use of water. However, imports of raw materials and electricity usage in industrial purposes moderated the impact although it was not strong enough to offset the overall decline.

Figure 1 Overall Monthly Indicator of Economic Activity



Source: CBL Calculations

Table 1: Summary of the Monthly Indicator of Economic Activity

Indices	2022							
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
CIEA	164.2	158.6	155.5	157.6	161.0	155.3	151.3	150.0
Monthly changes	-1.6	-3.4	-1.9	1.4	2.1	-3.5	-2.6	-0.9
Domestic Demand Category	161.7	146.5	145.3	148.5	162.6	151.7	142.6	145.5
Monthly changes	3.7	-9.4	-0.8	2.2	9.4	-6.7	-6.0	2.0
Manufacturing & Production Category	131.3	127.5	121.4	119.3	115.2	116.8	110.0	106.6
Monthly changes	1.6	-2.9	-4.8	-1.7	-3.4	1.4	-5.8	-3.1

Source: Central Bank of Lesotho (CBL) Calculations

II. INFLATION AND PRICES

Headline Inflation

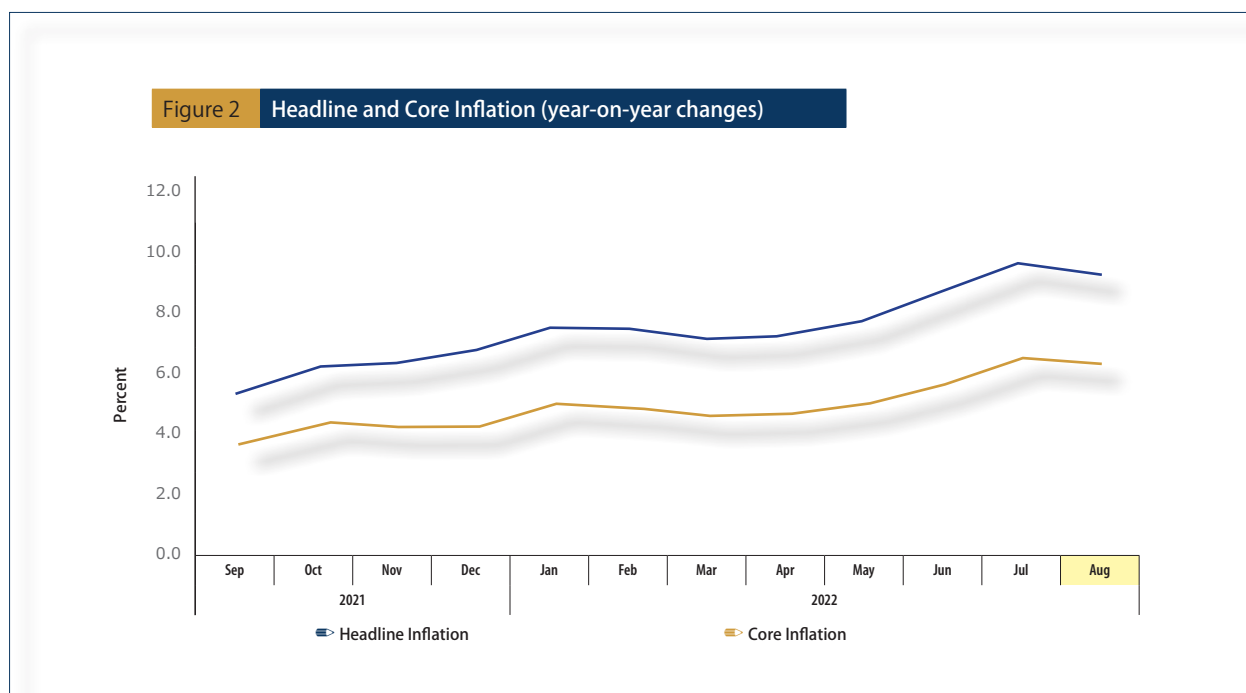
In August 2022, inflation rate declined to 9.4 per cent from 9.8 per cent recorded in the preceding month. The major contributors to the disinflation were Housing, Water, Electricity, Gas and Other Fuels and Transport categories.

The major driver of the deceleration in consumer price index during the review period was the impact of the continued government fuel subsidy introduced in July 2022, which was estimated to run

until December 2022. The subsidy was introduced to cushion consumers from rising energy prices. During the same period, fuel prices could have risen due to rising international crude oil prices and currency depreciation had the government not introduced the fuel price subsidy policy.

Core Inflation

Underlying inflation pressures, measured by core inflation, marginally declined from 6.5 per cent in July to 6.4 per cent in August 2022.

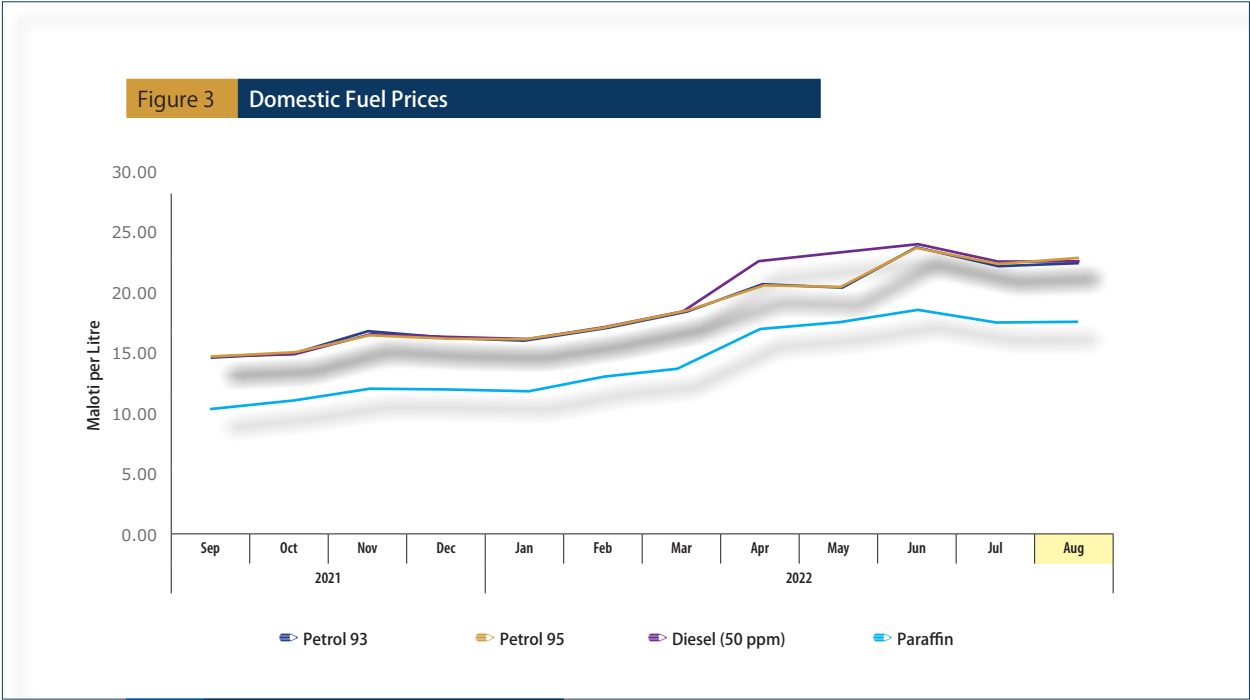


Source: Lesotho Bureau of Statistics & CBL Computation

Domestic Fuel Prices

Domestic fuel prices remained unchanged in August 2022 from their levels recorded in the preceding month except for the increase in the price of diesel. This was mainly due to the government fuel subsidy policy enacted in July 2022. Prices of both grades of

petrol (*petrol₉₃* and *petrol₉₅*) remained at M22.20 and M22.65 per litre, respectively, at the pump, whereas the price of *diesel₅₀* was increased by M0.15 to M23.15 per litre at the pump. The price of illuminating paraffin remained unchanged at M17.80 per litre in the retail market during the review period.



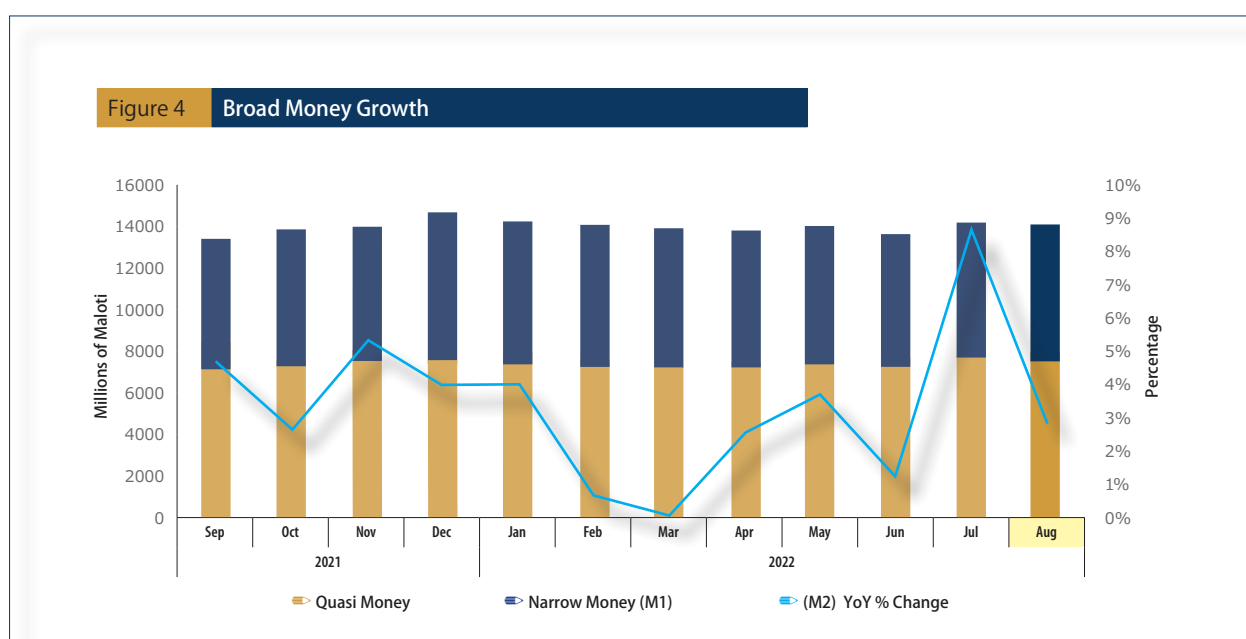
III. MONETARY AND FINANCIAL INDICATORS

Broad Money (M2)

The broadly defined money supply (M2) declined by 0.9 per cent in August, in contrast to an increase of 4.0 per cent in July 2022. This emanated from a fall of 6.7 per cent in net foreign assets (NFA), while net domestic assets (NDA) rose by 15.2 per cent. NFA was underpinned by a decline in both the central bank and commercial banks' NFA. The growth in NDA was supported by a drawdown in government deposits held with the central bank.

Components of Money Supply

Narrow money (M1) and quasi money fell by 0.5 per cent and 1.2 per cent, respectively. The decline in M1 and quasi money emanated from a fall in transferable and call deposits, respectively, held by other financial corporations and business enterprises.

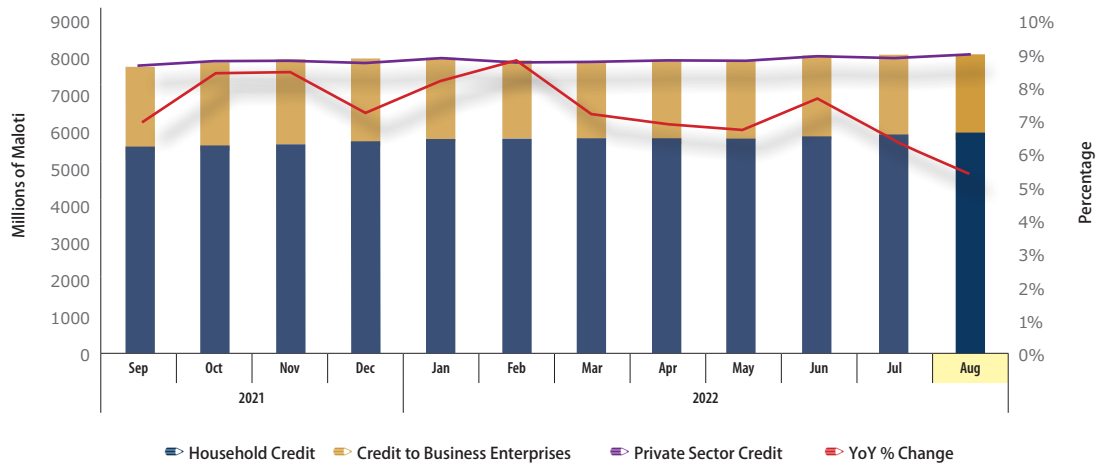


Private Sector Credit

The total loans and advances extended to the private sector rose by 0.6 per cent in August 2022, compared to a fall of 0.7 per cent in the preceding month. This was due to an increase of 4.8 per cent in loans to business enterprises, whereas household credit fell by 0.8 per cent. The contraction in household credit stemmed from a fall of 1.4 per cent in personal loans while mortgage loans rose by 0.8 per cent.

Considering the allocation of credit to business enterprises, retail, hotel & restaurant, real estate & business services, as well as mining & quarrying received the largest shares of 24.6 per cent, 24.0 per cent and 20.8 per cent, respectively. The community, social & personal services sector continued to receive the lowest share of 0.3 per cent in the review period. On a year-on-year basis, private sector credit increased by 5.6 per cent in August 2022.

Figure 5 Private Sector Credit



Source: Central Bank of Lesotho

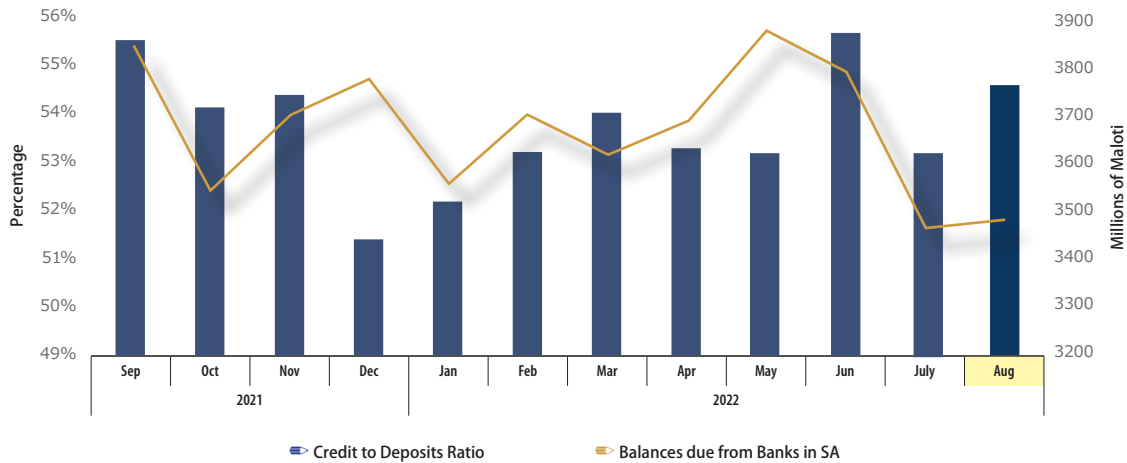
Non-Performing Loans

The total non-performing loans (NPLs), as a ratio of total loans, remained unchanged at 4.9 per cent between July and August 2022. The business NPLs fell by 0.1 percentage points to 6.2 per cent whereas the household sector NPLs remained stable at 4.4 per cent. The largest shares of business sector NPLs were towards construction, retail trade, restaurants & hotels and real estate & business services. Regarding Household sector, mortgage NPLs declined from 10.4 per cent in July to 10.2 per cent in August, and personal loans NPLs rose from 2.3 per cent to 2.4 per cent during the same period.

Sources of Funds

The credit to deposit ratio rose from 53.2 per cent in July 2022 to 54.6 per cent in August 2022. This was due to an increase in private sector credit, coupled with a fall in total deposits.

Figure 6 Credit to Deposit Ratio



Source: Central Bank of Lesotho

Interest Rates

The CBL policy rate, average prime lending rate and 1-year deposit rate remained unchanged at 5.50 per cent, 9.00 per cent and 3.48 per cent, respectively, between July and August 2022. However, 91-day T-bill rate rose by 68 basis points from 4.94 per cent in July, to 5.62 per cent in August 2022.

Foreign Exchange

The rand hence the loti strengthened against its three major trading currencies in August 2022. The rand (loti) appreciated by 0.91 per cent, 0.84 per cent and 1.40 per cent against the dollar, pound and euro respectively in August 2022 compared to the preceding month.

The loti was supported mainly by the release of the 13-year high inflation rate, which raised prospects of further rate hikes by the South African Reserve Bank – thus strengthening the rand (loti).

The rand alongside other emerging market currencies, also benefitted from mounting concerns of a recession in Europe, which weighed negatively on the Euro. The stronger value of the rand was, nonetheless, moderated by ongoing power supply challenges in South Africa, which were expected to persist for a longer period, as well as lower commodity prices, especially gold.

IV. GOVERNMENT BUDGETARY OPERATIONS

Total Expenditure¹

Government total expenditure was estimated to have decreased by 23.8 per cent in August 2022, compared to an increase of 71.4 per cent in July 2022. All expense categories, except compensation of employees declined, with other expenses (student grants) showing the biggest decline. This fall was moderated by M120.00 million injection into national elections process. The incurred spending on elections accumulated to M242.72 million since April 2022.

Outlays by Functions

The share of capital outlays to total outlays decreased from 6.6 per cent in the preceding month to 4.9 per cent in the current month. The contributing functions to the drop were housing and health sectors.

Total Revenue

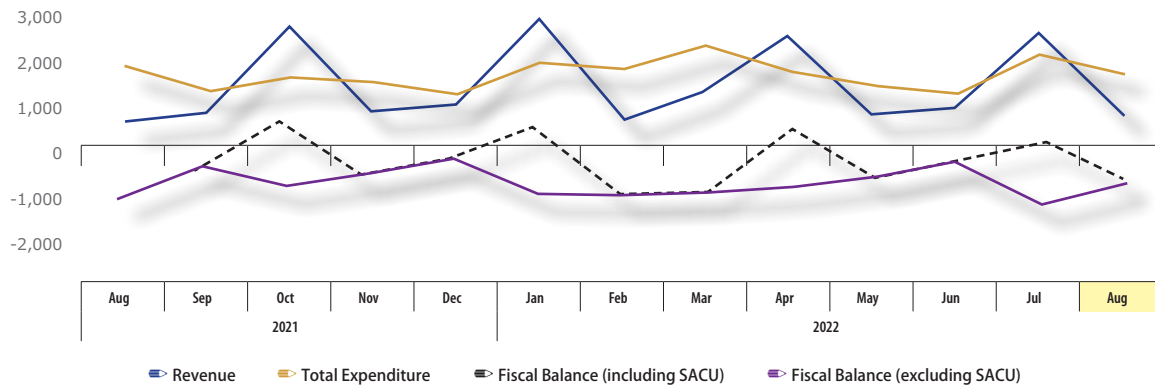
The Government revenue, excluding SACU receipts, fell by 11.3 per cent in the review month, following a 5.0 per cent drop recorded in the previous month. This was a result of shortfalls in personal income tax, company taxes and withholding tax.

Fiscal Balance and Financing

The fiscal operations reflected a fall in financial assets and an increase in liabilities. The reduction in domestic assets was primarily caused by a reduction in Government deposits, while Liabilities responded to the issued Treasury bills.

¹ The year-to-date refers to an accumulation within a fiscal year, starting from April.

Figure 7 Government Fiscal Balance – Excluding SACU Receipts (Million Maloti)



Source: Central Bank of Lesotho & Ministry of Finance

Table 2: Classification of Expenditure by Function and Economic Item (Percentage Change)

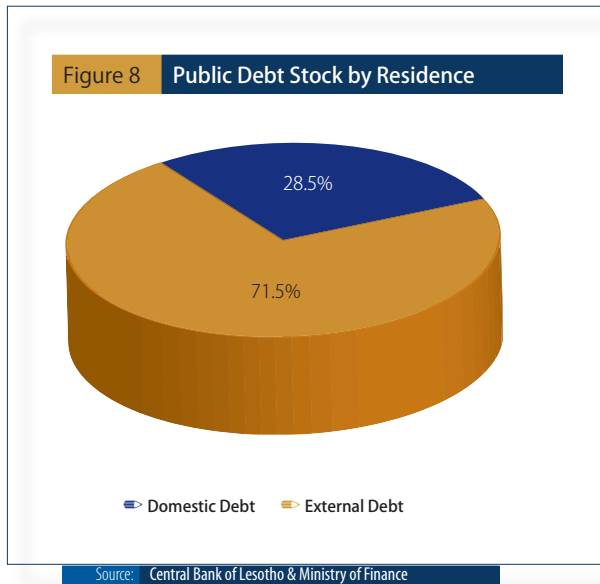
Function	Economic Item	Compensation of Employees	Use of Goods and Services	Subsidies	Grants	Social Benefits	Other Expenses	Net Investment in Nonfinancial Assets	Share per Function
General Public Services		19.2%	14.5%	82.9%	70.5%	0.0%	57.3%	4.5%	22.4%
Defense		5.9%	5.3%	0.0%	27.3%	0.0%	0.0%	0.0%	7.6%
Public Order and Safety		18.0%	6.3%	0.0%	0.1%	0.0%	0.0%	4.0%	10.6%
Economic Affairs		6.8%	25.1%	0.0%	2.0%	0.0%	4.1%	80.9%	17.8%
Environmental Protection		0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Housing and Community Amenities		0.7%	0.7%	0.0%	0.0%	0.0%	0.0%	10.5%	1.6%
Health		6.3%	43.0%	0.0%	0.0%	5.1%	38.7%	0.0%	13.2%
Recreation, Culture, and Religion		0.8%	1.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.6%
Education		25.5%	2.2%	17.1%	0.0%	0.0%	0.0%	0.0%	12.8%
Social Protection		16.7%	1.7%	0.0%	0.0%	94.9%	0.0%	0.1%	13.3%
Share per Economic Item		48.1%	22.9%	0.3%	13.0%	5.1%	0.0%	10.5%	100.0%

Source: CBL and MOF

V. PUBLIC DEBT

The ratio of public debt stock to GDP was estimated at 53.9 per cent in August 2022 from the revised 53.2 per cent in July 2022. The issuance of Treasury bills

and foreign exchange rate movements were the causes of the 1.3 per cent increase.



Appendix: Key Economic Indicators

		22-Jan	22-Feb	22-Mar	22-Apr	22-May	22-Jun	22-July	22-Aug	
Economic Activity (MIEA (% change, M/M))		-1.6	-3.4	-1.9	1.4	2.1	-3.5	-2.6	-0.9	
Consumer price Index (% change)	Headline Inflation (year-on-year)	7.6	7.5	7.2	7.3	7.8	8.8	9.8	9.4	
	Core Inflation	4.9	4.9	4.6	4.7	5.0	5.6	6.5	6.4	
Exchange Rates (Monthly End Period)	EUR	17.36	17.27	16.19	16.60	16.75	17.08	16.83	17.05	
	GBP	20.88	20.65	19.15	19.78	19.69	19.91	20.03	19.82	
	USD	15.56	15.43	14.58	15.77	15.67	16.43	16.54	17.03	
Money Supply (Millions of Maloti)	M2	14,378.20	14,259.33	14,105.47	14,037.84	14,232.41	13,815.35	14,372.60	14,250.90	
	M1	6,814.43	6,749.37	6,640.23	6,610.03	6,585.97	6,303.45	6,485.86	6,455.37	
	Quasi Money	7,563.77	7,509.96	7,465.25	7,427.80	7,646.45	7,511.90	7,886.74	7,795.53	
Interest Rates	CBL Rate	3.75	4.00	4.25	4.25	4.75	4.75	5.50	5.50	
	91 day Treasury bill rate	4.09	4.16	4.45	4.45	4.43	4.45	4.94	5.62	
	Prime lending rate	8.44	8.69	8.69	8.00	8.00	8.25	9.00	9.00	
	1 year deposit rate	2.80	2.90	2.75	2.75	3.41	3.41	3.48	3.48	
Private sector Credit (Millions of Maloti)		8,007.95	8,005.69	7,959.63	7,961.09	8,072.73	8,124.05	8,070.42	8,122.32	
	Households	5,878.69	5,893.88	5,884.56	5,889.53	5,907.73	5,981.28	5,949.52	5,900.89	
	Business Enterprises	2,123.95	2,105.67	2,068.10	2,065.66	2,159.07	2,136.76	2,114.33	2,215.34	
	Non-profit Organisations	5.31	6.14	6.97	5.90	5.93	6.01	6.57	6.09	
Bank Deposit Liabilities (Millions of Maloti)		15,319.10	14,972.33	14,708.53	14,879.60	15,097.49	14,714.39	15,318.09	15,163.65	
Credit to Deposit Ratio (%)		52.13	53.18	53.99	53.25	53.19	55.67	53.19	54.59	
Fiscal Operations (Millions of Maloti)	Fiscal Balance	568.52	-966.66	-945.43	505.19	-601.15	-258.55	191.32	-771.76	
	Total Revenue (with SACU receipts)	2,426.86	749.71	1,272.19	2,169.27	788.61	935.86	2,238.58	787.99	
	Total Expenditure	1,858.34	1,716.38	2,217.62	1,664.07	1,389.76	1,194.41	2,047.26	1,559.75	
	O/W Capital	168.06	505.42	667.79	97.83	236.54	127.24	282.91	212.78	
Total Public Debt (Millions of Maloti)		20,051.26	20,183.60	19,446.21	19,218.61	19,650.24	19,730.05	19,816.15	20,071.10	
	Total External Debt	14,745.60	14,694.10	13,874.30	13,822.10	14,263.20	14,313.50	14,210.30	14,350.20	
	External Debt	Concessional	11,195.60	11,101.00	10,386.50	10,365.50	10,590.60	10,650.80	10,548.30	10,628.50
		Non-concessional	3,550.00	3,593.10	3,487.80	3,456.60	3,672.60	3,662.70	3,662.00	3,721.70
	Domestic Debt	5,305.66	5,489.50	5,571.91	5,396.51	5,387.04	5,416.55	5,605.85	5,720.90	
Memo Item: Arrears (Millions of Maloti)		2.33	0.59	0.00	0.00	0.00	0.00	0.00	0.00	

Source: Central Bank of Lesotho

Explanatory Box

Indicator of Economic Activity

The Indicator of Economic Activity is an index constructed from 14-time series variables. Key considerations in the choice of the variables were (1) the frequency with which the data is available and (2) the extent of their ripple effect to other sectors of the economy. The variables can be grouped into two important economic categories – the domestic demand category and the manufacturing & production category. This enables the determination of whether the economic activity is affected by the demand components, the production components or both sides of the activity.

Core Inflation

Lesotho's core inflation is the 30% trimmed mean of the headline inflation. This core inflation measure excludes the consumer price index (CPI) items with extreme price changes.

Government Budgetary Operations

In the process of improving compilation of Government expenditure using Government Finance Statistics Manual 2014 (GFSM 2014) of the International Monetary Fund, the Government spending for the month of March 2019 has been disaggregated into due-for-payments and commitments (normal payment delays or arrears).

The due-for-payments spending transactions refer to the payment instructions from the Government's financial information system (known as IFMIS) to the Central Bank of Lesotho for actual payment process. The commitments are described as pending spending transactions in respect of delivered goods and services, which have passed their due date for payments, and hence, the arrears. The data on these components (arrears and due-for-payments) fulfil the aim of GFSM 2014, which requires the Governments to compile the spending, among others, using accrual basis method of recording.

However, in terms of Lesotho's expenditure data, interest payments of loans are still being compiled using cash basis method of recording. All other expenditure components (including use of goods and services, compensation of employees, and social benefits) are in accrual basis.

Apart from spending by economic classification above, the database on the spending by functions was rebuilt starting from the April 2019 onwards while at the same time the historical data was compiled bit by bit. Thus, the table on the classification of outlays by functions of government (known as COFOG) was last updated by Ministry of Finance in 2008/09, just before the implementation of new IFMIS chart of accounts.

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